Chapter 3

Literature Review

3.1 Business Ethics

Stanford Encyclopedia of Philosophy, 2008, defines morality as is taken to refer to plays a crucial, although often unacknowledged, role in formulating ethical theories.

The term “morality” can be used either

1. Descriptively to refer to a code of conduct put forward by a society or,
   a. some other group, such as a religion, or
   b. accepted by an individual for one’s own behavior or

2. Normatively to refer to a code of conduct that, given specified conditions, would be put forward by all rational persons.

Aristotle talked about ethics in (384-322 BC) and explained in details in “Human Virtue”.
For Aristotle, the good is happiness, which is “an activity of the Soul.” The means of happiness were human virtues like courage, self-control, generosity, magnificence, patience, amiability, truthfulness and witiness. Another deontological approach to ethics was the perspective of religion, which is a rule based enterprise. Here, the principles and rules are believed to come directly from God and faith—not reason,
intuition or knowledge- is the element that provides the foundation for a moral life. (Colle et al, 2008)

Hartman, 2007, Jeremy Bentham (1748-1832) and John Stuart Mill (1806-1873), were of the opinion that the moral rightness or wrongness of an action is a function of the amount of pleasure or pain that it produced.

Fernanda, 2008, said, the “greatest happiness” principle is the foundation of morals, that is, actions are ethical if they promote happiness, wrong if they promote the opposite of happiness.

Immanuel Kant, 1724-1804, said about morality, “In considering origin of moral and morality, reason is the final authority for morality. Only those actions that are undertaken from the sense of duty dictated by reason are moral. Those acts that are dictated only by law or custom cannot be moral.”

Hartman, 2008, “Businessman uses ethics for decision making in the organizational framework. There are lot of theories of ethics which allows us to explore dilemmas of decision making with new eyes to better understand the implication of decision making of a person and helps to adopt normative perspective on the decision making process of an individual. There are some theories on ethics and moral motivation given by Aristotle, Kant and many others.
<table>
<thead>
<tr>
<th>Ethical Theory</th>
<th>Characteristics of corporate ethics programs</th>
<th>Role of moral imaginations to support the ethics program</th>
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</table>
| **Aristotelian virtue ethics** | - Develop the manager with 'good character'  
- Ethics training based on case studies and leadership examples  
- Practical wisdom, Personal integrity, Good character  
- Use the same rules at home as well in the office  
- Moral imagination enables disengagement from the context and discernment |                                                                                  |
| **Kantian ethics**     | - Develop the manager's capacity of moral reasoning to act 'from duty (according to the corporate mission)  
- Discuss case-studies to develop/ challenge moral minimums via a process of continuous adaptation (reflective equilibrium)  
- Moral reasoning compliance (with corporate ethics)  
- Walk the talk (demon striating to live up with the corporate Mission and values)  
- Moral imagination enables investigating new alternatives and promotes awareness of what values are at stake |                                                                                  |
| **Mill's utilitarianism** | - Develop the manager's appropriate moral feelings and develop managerial understanding of external sanctions  
- Ethics training designed to develop moral feelings: Ethics/ CSR management programs and tools to identify and measure external benefits and negative sanctions for ethical behavior  
- Moral feelings Cost/benefit analysis (for all stakeholders)  
- Act to maximize overall stake holder satisfaction  
- Moral imagination enables evaluating the viability and consequences of novel possibilities for all corporate stake holders involved. |                                                                                  |

John Boatright, 2008, said “It is important for people in business to be ethical, and being ethical in business is no different than being ethical in private life. Business activity takes place within an extensive framework of law and some holds that law is the only set of
rules that applies to business activity. People generally feel law, not ethics, is the only relevant guide. “

Carroll, 2003, in his model (Carroll’s four part model) through the length of its bars suggests that the primary responsibilities of a firm are economic and legal. The firm must produce the goods and/or services that society wants, in a lawful manner and must sell them at a profit. However the firm must also have ethical as well as discretionary bindings. Carroll opines that to the extent firms fail to acknowledge discretionary or ethical responsibilities, society will assert and bring them under legal framework. Before that happens, it is advisable that corporations understand and perform social activities voluntarily.

John Boatright, 2008, said that business ethics is conceived as acting ethically as a manager by doing the right thing. Acting ethically is important both from individual perspective and also from business perspective.

Carroll, 1991, categorized management as categorized in three categories i.e. Immoral, Amoral and Moral:

a. **Immoral Management**: This management cares only about the company’s profitability and success. They see legal standards as barriers or impediments. Their strategy is to exploit opportunities for personal or corporate gain.
b. **Amoral Management:** This management is neither immoral nor moral but is not sensitive to the fact that their everyday business decisions may have deleterious effects on others. This management lacks ethical perception or awareness.

c. **Moral Management:** This management not only conforms to a high level of accepted Professional Conduct, they also commonly exemplify leadership on ethical issues. This management wants to be profitable, but only within the confines of sound legal and ethical perception, such as fairness, justice and due process.

Kyoko Fukukawa, 2007, admitted that the issues of corporate identity, ethics and corporate social responsibility are certainly receiving increasing attention not only in academic literature but also in the public media.

As Spence et al., 2003, point out, “Business ethics does not operate in a vacuum disconnected from the rest of the world. Social control is a powerful form of governance on smaller networked enterprises.”

Russell, 1993, while surveying small firms in investigating the perceived gap between business goals, professed values and their actual behavior found 'that ethical codes alone are insufficient to change either attitudes or behavior because they have been notoriously difficult to implement', The same study concluded that the four most common attitudinal barriers to ethics among small firms are:

- Ethics and business don't mix
• It doesn't pay to be ethical
• If it's legal, it's ethical
• Compared to others this company is ethical

Porter, 2006, gives four arguments for adopting CSR:

a. **Moral Obligation**: Businesses have a duty to be good citizens and to “do the right thing”.

b. **Sustainability**: Sustainability emphasizes environmental and community stewardship.

c. **License to operate**: Every company requires tacit or explicit permission from government, communities and numerous other stakeholders to do business.

d. **Reputation**: Many companies justify their CSR activities on the ground that they will improve a company’s image, strengthen its brand, enliven morale, and even raise the value of the stock.

The Strategic Advisory Group on CSR of the International Organization for Standardization (ISO) describes it as “a balanced approach for organizations to address economic, social and environmental issues in a way that aims to benefit people, community and society.”

As per Peter Drucker, 1954, “the enterprise is an organ of society and its actions have a decisive impact on the social scene. It is thus important for management to realize that it must consider the impact of every business policy and business actions upon society. It
has to consider whether the action is likely to promote the public good, to advance the basic belief of society, to contribute to its stability, strength and harmony.”

Infosys Chairman Narayana Murthy defines CSR as, “social responsibility is to create maximum shareholder value working under the circumstances where it is fair to all its stakeholders, workers, consumers, the community, Government, and the environment”.

Sharma, 2005, states that in the years to come, issues such as corporate accountability, corporate ethics, and disclosure of relevant corporate information shall become increasingly important centre of attention. Besides, diversification and adopting synergistic policies, corporations need to develop new measures of performance, new standards of ethics and a new awareness of multiple bottom lines instead of concentrating only on profits as they did in the past. They have to increasingly focus on multiple bottom lines - informational, social, environmental and ethical - which are interconnected and interdependent. Hence, corporations should pay great attention to ethical issues while performing their role because, if ethics is missing, business and society as a whole would not flourish.

3.2 Literature Review on CSR

J.R.D. Tata points out, “high standards of behavior and discharge of social obligations should be expected of or demanded from, not only business and industry but from all economic groups in the country whose actions have an impact on the public wealth”, (Lala, 1992).
Porter in 2006 stated that successful companies need a healthy society. Education, health care and equal opportunity are essential to a productive workforce. Safe products and working conditions not only attract customers but lower the numbers of accidents. Efficient utilization of land, water, energy and other natural resources make business more productive. Ultimately a healthy society creates expanding demand for business, as more human needs are met and aspirations grow. Any business that pursues its ends at the expense of the society in which it operates will find its success to be illusory and ultimately temporary.

Sarbutts, 2003, states that during the past decade corporate social responsibility (CSR) has gained significant importance globally, although responsible behavior of firms has a long history now.

Baxi, 2005, said “CSR in the present context is seen beyond the philanthropic concept. It is becoming an integral part of most of businesses. It is not just a buzz word for the corporate but rather is looked upon as a tool for sustainable business. Asongu, 2007, stated that CSR is perhaps as old as business itself and in some societies one cannot do business without being socially responsible.

3.2.1 Arguments for CSR

One school of thought focuses on “micro level” analysis, how individual companies could be made more responsible towards society. Robert Ackerman, a micro-level theorist in his model (Ackerman’s Model) suggests that responsiveness should be the
goal of corporate social endeavor. He described three phases (at the levels of Top management, Staff specialists and Divisional management) through which companies commonly tend to pass for developing a response to social issues.

Similarly, Carroll, in his model (Carroll’s four part model) in 2003, suggests, that the primary responsibilities of a firm are economic and legal. It must produce the goods and/or services that society wants and in a lawful manner and must sell them at a profit. But still it has ethical as well as discretionary bindings. Carroll opines that to the extent firms fail to acknowledge discretionary or ethical responsibilities, society will assert and bring them under legal framework.

The concept of CSR has been developed by academics, trying to systematize actual social demands. Simultaneously, their conceptual models were used by social movements to support their claims (e.g., Ralph Nader’s Corporate Social Responsibility Project). Hence, CSR has had both a bottom-up origin and a top-down development.

Motivation for an organization to become socially enlightened and responsive comes from both internal as well as external environmental factors.

Ward et al., 2002, stated that the important drivers of CSR may be personal ethics of individual entrepreneurs, laws and regulations, supply chain pressures, assurance of positive public relations and reputation, shareholders activism and investors’ relations, social license to operate, sustaining key aspects of business, co-operation in development, and improvement of the business as a whole.
Zadek, 2004, has come out with five stages of organizational learnings.

**Table 3.2 The Five Stages of Organizational Learning**

When it comes to developing a sense of corporate responsibility, organizations typically go through five stages as they move along the learning curve.

<table>
<thead>
<tr>
<th>STAGE</th>
<th>WHAT ORGANIZATIONS DO</th>
<th>WHY THEY DO IT</th>
</tr>
</thead>
<tbody>
<tr>
<td>DEFENSIVE</td>
<td>Deny practices, outcomes, or responsibilities</td>
<td>To defend against attacks to their reputation that in the short term could affect sales, recruitment, productivity and the brand</td>
</tr>
<tr>
<td>COMPLIANCE</td>
<td>Adopt a policy-based compliance approach as a cost of doing business</td>
<td>To mitigate the erosion of economic value in the medium term because of ongoing reputation and litigation risks</td>
</tr>
<tr>
<td>MANAGERIAL</td>
<td>Embed the societal issue in their core management processes</td>
<td>To mitigate the erosion of economic value in the medium term and to achieve longer-term gains by integrating responsible business practices into their daily operations</td>
</tr>
<tr>
<td>STRATEGIC</td>
<td>Integrate the social issues into their core business strategies</td>
<td>To enhance economic value in the long term and to gain first mover advantage by aligning strategy and process innovations with the societal issue</td>
</tr>
<tr>
<td>CIVIL</td>
<td>Promote broad industry participation in corporate responsibility</td>
<td>To enhance long term economic value by overcoming any first mover disadvantages and to realize gains through collective action</td>
</tr>
</tbody>
</table>

**3.2.2 Arguments against CSR**

Friedman, 1970, stated that the corporate executive is also a person in his own right. As a person, he may have many other responsibilities that he recognizes or assumes voluntarily—to his family, his conscience, his feelings of charity, his church, his clubs, his
city or his country. He may feel impelled by these responsibilities to devote part of his income to causes he regards as worthy, to refuse to work for particular corporations, even to leave his job, for example, to join his country's armed forces. If we wish, he may refer to some of these responsibilities as "social responsibilities." But in these respects he is acting as a principal, not an agent; he is spending his own money or time or energy, not the money of his employers or the time or energy he has contracted to devote to their purposes.

If these are "social responsibilities," they are the social responsibilities of individuals, not of business. In each of these cases, the corporate executive would be spending someone else's money for a general social interest. Insofar as his actions in accord with his "social responsibility" reduce returns to stockholders, he is spending their money. Insofar as his actions raise the price to customers, he is spending the customers' money. Insofar as his actions lower the wages of some employees, he is spending their money.

"There is one and only one social responsibility of business—to use its resources and engage in activities designed to increase its profits so long as it stays within the rules of the game, which is to say, engages in open and free competition without deception or fraud."

Marrewijk, 2000, criticized CSR on the following grounds:

- Its narrow content (the concept has been articulated more as management of externalities than as "holistic criteria in comprehensively redefining an organization internally:
- Its broad content;
Chapter 3 Literature Review

- Its academic origin;
- The difficulties to operationalize CSR and
- The potential to bias its content towards specific interests.

Friedman, 1970, said “It has been widely used to persuade managers to take into account the social side effects of their policies. Profits lose their capacity to measure performance when in their computation, externalities have not been taken into account”. In addition CSR was further criticized by neoclassical proponents who regarded it as “subversive,” as an attack on property rights, and, in general, as a threat to free society.

Reliance Group, founded by Dhirubhai Ambani, propounds the other school of thought, which is opposed to CSR as such. “As an industrialist my job is”, declared Ambani, “to produce goods to satisfy the demand. Let us be clear about it. Everyone has to do his job. My commitment is to produce at the cheapest price and the best quality. If you dabble in everything then you make a mess of things. If we cannot take care of our shareholders and employees and start worrying about the world, then that is hypocrisy”.

Maignan et.al, 2003, said “against the lack of clarity of the concept and its contents, it may be argued that this is inherent in the concept of CSR. The concept of CSR makes reference to a relative concept; social demands vary in time and space and even within the same group of stakeholders (e.g., employees). Therefore, there will always be some ambiguity in the concept. This counterargument also helps to explain the difficulties in operationalizing the concept: CSR has to be specified in each company, taking into
account its changing environment. It is not easy to provide managers with rules of thumb as evidence shows that social demands change in every society.

‘Businesses are not responsible toward society as a whole but only toward those that directly or indirectly affect or are affected by the firm’s activities’.

This view has marked a shift in emphasis from societal to stakeholder obligation. Drawing on the work of Henriques and Sadorsky (1999), Maignan and Ferrell (2004) suggest four main stakeholder categories:

(a) Organizational (to include employees, customers, shareholders, suppliers, and creditors);

(b) Community (e.g., local residents and interest groups);

(c) Regulatory bodies; and

(d) Media stakeholders.

Buchholz, in 2004, argued for another category, which is not usually considered in stakeholder models – the natural environment. Hence, under this contemporary view of CSR, while corporations need not be considered responsible to society in a holistic sense, their stakeholder obligations are nonetheless very extensive and bring into focus numerous and varied societal concerns, as well as many potential conflicts. Whilst there is actually no single definitive theory of stakeholders, ‘each version generally adheres to the same basic principle, namely that corporations should heed the needs, interests, and influence of those affected by their policies and operations’:

- **The internal dimension** – within the company, socially responsible practices primarily involve employees and relate to issues such as investing in human capital, health and
safety, and managing change, while environmentally responsible practices relate mainly
to the management of natural resources used in the production;

- The external dimension – CSR extends beyond the doors of the company into the local
   community and involves a wide range of stakeholders in addition to employees and
   shareholders such as business partners and suppliers, customers, public authorities and
   NGOs representing local communities, as well as the environment.

Sasse in 2007 stated that engaging in CSR initiatives can easily outstrip a business ability
to accurately price the market’s need/wants, as they have no sound methodology to
estimate the value of the social goods and services they are providing. Corporations are
less than competent in dealing with products and services not integral to their business.

Drucker in 2001, stated that business as a rule, will be in this position of absolute
incompetence in an ‘intangible’ area. The strength of the business is accountability and
measurability. It is the discipline of the market test, productivity measurements and
profitability requirement. Where these are lacking, businesses are essentially out of their
depth. They are also out of fundamental sympathy, that is, outside their own value
system.
3.2.3 History of CSR Internationally

The term CSR originated in the year 1953 for the first time in the book written by Bowen 1953 named “Social responsibilities of Businessmen”, in which he mainly talked about responsibility of a businessman’s conscience rather than a company itself.

Freeman, 1984, in his book said that in 1970 two terms were used - corporate social responsiveness and corporate social responsibility; corporate social responsiveness required from companies and was used to link CSR with strategic management.

Carroll, 1991, said, “the term social responsiveness also simultaneously got popular which emphasized on corporate action, pro-action and implementation of a social role whereas, in emphasis CSR focused exclusively on the notion of business obligation and motivation and that action and performance were being overlooked.”

Gibson, 2000, has stated that the issue of stakeholders were discussed before 1980 Stakeholders were originally defined in a Stanford Research Institute Internal Report (1963) as “those groups without whose support an organization would cease to exist,” In 1980 with the landmark book of Freeman “Stakeholders”, this concept got wide popularity.

Freeman, in 1984, extended the scope of stakeholders by defining it as, “Any group or individual who can affect or is affected by the achievement of the organization’s objectives,” The term proved to be useful as more than 200 theoretical papers have been written about stakeholders.
Carroll, 1991, stated that CSR and existing literature on the stakeholder address the same issues. There is a natural fit between the idea of corporate social responsibility and an organization’s stakeholders. The word “social” in CSR has always been vague and lacking in specific direction as to whom the corporation is responsible. The concept of stakeholder personalizes social and societal responsibilities by delineating the specific groups and persons business should consider in its social orientation.

Thus, the stakeholder nomenclature puts “names and faces” on societal members who are most urgent to business and to whom it must be responsive. The challenge posed against the management which stakeholders interest should be taken into account in the decision making process. Carroll came out with a stakeholder/responsibility matrix, a conceptual approach and framework. (Fig3.2.1). This matrix is intended to be used as an analytical tool or template to organize a manager’s thoughts and ideas about what the firm ought to be doing in an economic, legal, ethical and philanthropic sense with respect to its identified stakeholder’s group.
J.R. Boatright, 1993 in his book stated that the managerial “revolution” and the growing hospitality of the public, who, after experiencing increasing social problems, demanded changes in business.

Fernandez, 2001, stated that “Most of the responsibilities mentioned in the literature which coincided with the public’s demand were incorporated into regulation, giving rise to new approach: Public Policy Approach”.

It becomes very clear that businesses will have to abide by the law but complying with the legal requirement didn’t seem to be enough, the issues which started emerging in the company can be on the right side of the law but still may be unethical and the issue regarding the ethical behavior on the part of the companies started emerging.
Porter, 2006, said about philanthropy that philanthropic initiatives are typically described in terms of dollars or volunteer hours spent but almost never in terms of impact. Forward-looking commitments to reach explicit performance targets are even rarer.

Maignan et al, 2005, stated that enterprise stakeholders’ needs are interlinked, which, in turn, emphasizes a need for SMEs to develop different strategies towards each group of stakeholders.

### 3.2.4 Corporate Citizenship and CSR

Through Waddel in 2000, a new term came into existence corporate citizenship (CC) which reinforced the view that a corporation is an entity with status equivalent to a person. The definition of CC is not very clearly given in the literature. “CC having roots in political science, has been adopted as the term of choice in corporate reporting to specify a company’s social contribution. There are three visions that underline CC:

1. **A Limited View**: that equate CC with philanthropy and community involvement

2. **The Equivalent View**: that equates CC with CSR

3. **The Extended View**: CC implies a re-conceptualization of business-society relations."

Abshire in 2003, said that it becomes easier to understand CC from what the term conveys, as the term ‘individual good citizen’ is very well understood by the people managing the businesses. But the evidence still shows that managers are still confused with the meaning of “Corporate Citizenship”. CC emphasizes the idea that companies
have rights and duties like citizens of the country has. But as the CC’s rights are not that of real citizens, some authors argue that CC is a “fictional concept”.

Matten in 2005, said that the aim of CC is “Public Powerful actors, which have a responsibility to respect those real citizens’ rights in society,” he also stated that corporates are not citizens but legal entities entitled to carry out profit making activities as long as they fulfill certain social obligations. Corporates are contractual arrangements with society that can be taken away if corporations do not behave responsibly.

Finally some scholars argue that CC should be defined as the influence companies create on the society for their own benefit and also for the benefits of the society.

But both these terms CSR and CC reject the neo classical vision of corporate accountability, that businesses are mainly having their accountability only towards their shareholders for maximizing their wealth as they are legitimate owners of businesses.

Porter in 2006, said that the principle of sustainability appeals to enlightened self-interest, often invoking the so-called triple bottom line of economic, social, and environmental performance.

Directors and managers in organizations of all sizes, regions and types make decisions, which have positive or negative impact not only on the organization but also on the world around it. These decisions shape economic, environment and social conditions of the world in which we live. This is called as ESG.

(Sustainability- rebooting trust in business through Triple Bottom Line (Seminar on ESG arranged by IMC Jan 2010)
Hartman in 2007 said that disclosure on economic, environmental, and social performance is as commonplace and comparable as financial reporting, and important to organizational success (excerpt from Vision Statement of The Global Reporting Initiative). The GRI reporting initiative clearly makes a critical contribution to the dissemination of quality information to stakeholders relating to corporate social responsibility, and the recent G-3 seems primed to continue this effort.

3.2.5 History of CSR in India

In India, the concept of businesses working toward the society’s welfare is well documented in the Vedas where clear guidelines have been laid down for ethical human conduct in society as well as guidelines for businesses. The Vedas explain how businesses should operate in society for bringing economic development to the society in which they operate.

Druhl Kai in 2001 said that Vedic philosophy emphasizes that ‘Values’ are the basis of entire universe (Mahanam Upnishada 17.6; Manu Smiriti 1-108). Adopting value-based governance and meeting the expectations of the community at large best serves the long-term interest of an organization and its people.

Enderle Georges in 1997 stated that Indian Vedic literature emphasizes the need to work for an economic structure based on ‘Sarva Loka Hitam’ which means “the well being of all stakeholders”. According to Vedic philosophy, one should continuously distribute
one's wealth for the growth of the entire society. As and when this distribution of wealth stops, the rate of economic growth starts declining.

Asongu in 2007 stated that a similar view of business is presented in the Bible, where there is condemnation for charging interests on debts. In addition, Jesus in some of his parables, such as the Prodigal Son and the Good Samaritan, exemplifies the sharing of wealth.

Baxi 2005, in his book has said that in India the term CSR is not new. ‘Philanthropy’ as a form of CSR always existed in Indian business community from ancient times. The business community in doing philanthropy had a more religious mindset though the aim was always to enhance the welfare of the society. Royal families used to undertake building of temples in their states, which carried out charitable activities such as providing food and clothing to the needy people. Also, by building grand palaces and other monuments, the kings would ensure that employment was provided to artisans and craftsmen on a continuous basis.

Giving by the business community for society’s welfare was called by different names in different religions., Muslims call it “Zakath” Sikh call it ‘Dashaant’ and Hindus call it “Dharmmada” - they give away some percentage of money from profit for the religious purpose and with that money build a temple or Dharamshalas.
Mahatma Gandhi advocated the concept of Trusteeship Management, which was about the consciousness among companies and how they should operate for the benefit of society as much as for the company itself. He advocated trusteeship management where he advocated that entrepreneurs should be trustees of the wealth generated through business but the ultimate aim is to provide welfare and education to employees and society. The Trusteeship Model derives from the spiritual concept of ‘Tena Tyaktena Bhunjitha Lokasamgraha’ (enjoy your wealth by renouncing it). Approximately, 50 years later, the same concepts were re-introduced to the corporate world with terminologies like corporate social responsibility and corporate governance.

3.2.5.1 CSR in India after Independence

Before independence it was a few large corporate houses, such as the Tatas and Birlas, who actively practised CSR. The Tata Group established the Indian Institute of Science, the Tata Institute of Social Sciences and the Tata Institute of Fundamental Research (R.M.Lala, 1992). The Birla Group founded the Bombay Hospital and the Birla Institute of Technology.

After independence, for the first time in India, the Tatas conducted a social audit in order to find out areas where the Tata Group was not able to discharge its responsibility towards society. Several other industrialists took up CSR although in a fragmented manner. The Sarabhai Family founded the National Institute of Design and helped start the Indian Institute of Management. Various business groups supported a variety of causes - the Mahindras supported hockey and football, and the RPG Group supported arts.
India’s first Prime Minister, Pandit Jawaharlal Nehru, created giant public sector units such as Steel Authority of India, Limited (SAIL) which undertook CSR activities in the regions they operated from. Another example is of a unique public-private partnership in the form of the National Dairy Development Board (NDDB), which transformed hundreds of villages in India by creating a marketing outlet for the dairy produce of farmers. Dr. Kurien’s Amul led to the white flood i.e. abundance of milk which improved the well-being of farmers in India.

3.2.5.2 CSR in India Post Liberalization

Before economic liberalization, only a few companies paid attention to the social needs of the society they operated in and most simply used natural resources without taking responsibility for their prudent use to the future generations to come. After Liberalization, Privatization and Globalization, where markets were becoming global, pressure was created on businesses to adapt to internationally compatible trade practices. CSR was recognized as one of the key facets of businesses internationally. The e-Choupal initiative undertaken by ITC created great awareness in the corporate world. Infosys led the list of companies committed to the social cause by undertaking programs for providing education to youth from remote areas in different states and also improving the employability to Indian youth.

In today’s business world, a lot is expected from companies as far as their ethical behavior is concerned. The stakeholders are also becoming conscious about the ethical behavior of the company with which they are associated.
3.2.6 Strategic CSR

Dipankar said in 2003, that CSR, in its true sense, is hard work and must be seen in conjunction with the basic functioning of the company. It must radiate outwards to the society from within the core efficiencies of the firm in order to strengthen them in a not-too-long-run. CSR, thus, self-consciously raises the stakes for itself and in doing so, sets new targets and challenges that eventually impact the industry as a whole. For example, pioneering milk cooperatives at Anand (Gujarat, India) with the famous and most successful brand name "Amul" encourages dairy farming and animal husbandry in the region. Bill Gates' efforts in raising computer literacy will eventually help the software industry all around the world in general and "Microsoft" in particular. Pharmaceutical concerns can set up public health clinics to better understand how people react to illness and then factor that knowledge into research and development.

Porter in 2006 stated that companies should operate in such a way that secure long-term economic performance by avoiding short-term behavior that is socially detrimental or environmentally wasteful. The principle works best for issues that coincide with a company's economic or regulatory interest. DuPont, for example, has saved $2 billion from reductions in energy use since 1990. Changes to the materials Mcdonald's uses to wrap its food have reduced its solid waste by 30%. These were smart business decisions entirely apart from their environmental benefits.

Sasse in 2007, gave two interrelated rationales for corporations to engage in CSR:

a. It can be win/win by creating strategic leverage or competitive advantage or
b. It is necessary to improve the community environment in which business must operate.

Kramer in 2002, said that philanthropy with no justified business purpose is unwarranted. However he argued that Friedman’s position ignores the strategic opportunity CSR might hold for companies to improve their competitive context. Enter the idea of strategic CSR as a way to bridge the gap between stockholder interests and social needs.

### 3.2.7 CSR in recent times

Of the world’s 100 largest economic entities, 63 are countries. The other 37 are companies. (Nooyi, 2006).

Hertz in 2001 stated that companies of today are enjoying more power than some nations states, without engaging in the advancement of goods.

Baxi, 2005, stated that when corporates affect the environment adversely, exploits labor, uses the natural resources for their own wealth creation, there is an expectation that they should also work towards the welfare of the society. They have to compensate society for all wrong done by them. Businesses working for the welfare of the society can be called by many similar sounding terms like CSR, corporate social responsiveness, corporate social performance, corporate citizenship, stakeholding company, business ethics, sustainable company and triple bottom-line approach. In the European Union and also in India, the use of the word Corporate Social Responsibility is preferred by corporates, academicians and researchers.
Porter in 2006 said, that of the 250 of largest multinational corporations, 64% published CSR reports in 2005, either in their annual report or in separate sustainability report. Debate about CSR has moved all the way into corporate boardrooms. In 2005, 360 different CSR-related shareholders resolutions were filed on issues ranging from labor conditions to global warming. Government regulation increasingly mandates social reporting. Pending legislation in the UK, for example, would require every publicly listed company to disclose ethical, social, and environmental risks in their annual reports. These pressures clearly demonstrate the extent to which external stakeholders are seeking to hold companies accountable for social issues and highlight the potentially large financial risk for any firm whose conduct is deemed unacceptable.

Justice Kuldeep Singh, a judge of Supreme Court of India, while ordering the closure of more than 700 industrial units in Delhi which were actively upsetting the ecological balance and had virtually converted the river Yamuna into a sewer, observed that no one can allow economic progress and growth at the cost of ecological imbalance. As a result, CSR has become increasingly important in the modern era.

Sharma in 2005 said that in India, the Tata Group strongly favors and follows the concept of CSR, while the Reliance Group argues strongly against it. India’s largest and internationally best-known Tata Group of Companies, founded by Jamshetji Tata, believes in pioneering the concept of trusteeship in management. Benefits of the profits of many of the companies in the group are channeled back to the people through major philanthropic trusts. During recent years, profits of the company exhibit a fluctuating
trend but their expenditure on society is consistent. Nearly 80 per cent of the capital of the holding company, Tata Sons Limited, is held by these Trusts. As a result, great national institutions have come into being in the areas of science, medicine, atomic energy and performing arts.

J.R.D. Tata, who has been instrumental in conducting the first social audit in India and perhaps in the world, remarks, “While the profit motive no doubt provides the main spark for any economic activity, any enterprise which is not motivated by consideration of urgent services to the community becomes outmoded soon and cannot fulfill its real role in modern society.”

ISO in 2002, said that some other companies namely Asea Brown Boveri, Aracruz Celulose, General Motors, Dow Chemical, Mitsubishi Group, Novartis and Rio Tinto are also involved into the CSR programme while moving ahead in their respective businesses. ABB, the Swiss engineering corporation, is a sponsor of the Global Sustainable Development Facility (GSDF) and an active member of the World Business Council for Sustainable Development (WBCSD).

It is a world leader in developing eco-efficient technologies in a wide range of industry areas from electric transmission to transportation and is building a global network to install these technologies in many developing and transition economies. Aracruz Celulose, the world’s largest exporter of bleached eucalyptus pulp, is often cited for its efforts to promote sustainable development through tree plantation, harvesting and pulp
production, processed in Brazil. General Motors, the world’s largest automobile manufacturer is involved in various environmental protection initiatives and partnerships. Similarly, Dow Chemical, a US corporation was selected to participate in the GSDF for, inter alia, “abiding by the highest standards of human rights, environment and labour standard norms, as defined by UN agencies.

The Mitsubishi Group has been actively cultivating an image of environmental responsibility through advertising and specific environmental projects. Novartis, the Swiss life science corporation, is another participant in the GSDF and member of the WBCSD. It is often cited for its efforts in the fields of poverty alleviation and environmental protection. Rio Tinto, the British company, is often cited for its standards of environmental reporting and for promoting continuous social development and sustainable livelihood. CSR provides a number of advantages to business like lowering and limiting litigation, reduction in taxes, protecting brand image, improving customer satisfaction and reducing absenteeism, employee turnover and increasing the ability to retain talented employees etc.

As first proposed by the former United Nations’ Secretary General, Kofi Annan in his address to the World Economic Forum on 31 January, 1999, launched the operational phase of an international initiative Global Compact at the UN Headquarters in New York on 26 July, 2000. Kofi Annan invited business leaders to join the Global Compact that would bring companies together with UN agencies, labour and civil society to support nine universal principles in the areas of human rights, labour and environment. Global
Compact seeks to advance responsible corporate citizenship so that businesses could be part of the solutions to the challenges of globalisation. Today, hundreds of companies from all regions of the world, international labour and civil society organizations are engaged in Global Compact.

Berenbeim in 2006, stated that operationally, a company’s ethics profile is the outcome of two historical developments. Internally, organizations established compliance programs in the wake of defense procurement and bribery scandals to which the Defense Industry Initiative and the 1991 Organizational Sentencing Guidelines were a response. These initiatives set business conduct standards for employees and (increasingly agents) of the company. Program effectiveness is reinforced with ethics training and hotlines for reporting improper conduct with the system being monitored for effectiveness. During the same period, Corporate Social Responsibility (CSR) advocates promoted standards of ethical performance in the company’s relationships with the global community. This development was also a response to pressures resulting from incidents that raised questions about corporate conduct—in this case events such as the Bhopal disaster in India and the more recent Nike product sourcing controversies.

### 3.3 CSR practices among SMEs

Ackerman, 1975, Preston and Post, 1975, stated that the symbiotic relationship between “business and society” became the central issue of the debate, and one conclusion was that such a relationship had to be long term.
Spence 1999, said, “Small firm ethics and corporate social responsibility emerged in the business literature in the USA during the 1970s and 1980s. In the beginning this literature was mainly concerned with moral issues of employee behavior and other areas of social responsibility.”

Tilley in 2000 said, that CSR is a different issue when applied to SMEs, because of the intrinsic differences between large firms and SMEs. In other words, it is not the CSR that differs between large firms and SMEs, but the fact that SMEs are not “little big firms.”

Dandridge stated in 1979, “Theory generated for large firms cannot necessarily be applied in the case of small firms. It has been noted that small firms often differ from larger firms in their management style, organizational structure and in the characteristics of the owner-managers.”

Wickham in 2004 identified standard constraints operating on the actions of the business, such as legal and economic constraints and suggests that the entrepreneur also has discretion over the responsibility set for products or the way the impact on the environment is managed. This perspective implies that the nature of responsible actions in individual enterprises will vary according to the ethical perspective of the entrepreneur who owns and runs it.

Tilley in 2000, said participation by academics and practitioners will only help to mainstream CSR among SMEs, but it will not in itself guarantee that small firms will
fully engage in the debate on social responsibility. Further commitment from public authorities is also required to improve business ethics among SMEs.

Sethi in 1981 stated, that the increasing size and power of business in society places an even greater obligation upon it to be socially responsible for its actions than in earlier industrial times.

Thompson and Smith 1991, concluded that whilst: “CSR research is limited to big business, it can only be inferred that similar practices occur in small or medium-sized businesses ... the inclusion of small business within the existing theoretical framework for corporate social responsibility could yield valuable contributions to the CSR theory and research by broadening its scope and its applicability to big and small businesses alike.”

Welsh, in 1981 said that small firms often lack resources; they have difficulties in accessing finance and labor and in finding the necessary time to manage environmental matters.

Cyert et.al. in March, 1963 and Berle et.al. in 1932, said that a role for management is relevant for large enterprises with its division of power between owners and managers. In UNIDO CDP & CSR Project Working Paper, it is very clearly stated that a large number of small and medium enterprises (SMEs) in developing countries have so far played a marginal role in the CSR movement.

Welsh et.al. in 1981, accepted that large firms and SMEs differ in critical ways. Wiklund, 1998: Cressy, 1996; Cooper, 1982, said that Small enterprise owners usually have a more
direct impact on the operations and activities of their enterprises than those of large enterprises.

Birley et al said in 1994 that a close and direct role of small enterprise owners may imply multi-dimensional goals; a commercial orientation as well as personal preferences, objectives, and ambitions such as desire for lifestyle, family, and reputation in communities. Consequently, owners of small enterprises play a critical decision-making role in determining CSR activities.


CEC 2002, 2005, 2006, in its paper said that policy makers in Europe are particularly keen to promote CSR among the most common business forms, i.e., small and medium sized businesses, in order to forward macro-level goals of inclusiveness and enterprise. The European Commission has acknowledged the need to identify a different approach compared to that taken with large firms.

Castka said in 2004, that SMEs can benefit from CSR and improve their business and develop competitive advantage. It was also concluded that business system frameworks,
such as ISO 9001:2000, can serve as a vehicle for integrating CSR into day-to-day operation of the business.

When India started economic liberalization in the 1990s, small and medium enterprises (SMEs) were hit hardest by exposure to the onslaught of competitive forces at both global and national levels. The SME sector was vulnerable because it had neither the size nor the technology advantage to be able to withstand the competitive pressure on it. What is more, many SMEs were used to working under a strong protectionist regime. It was consequently felt that despite the many support schemes extended to SMEs, the marginalizing effect of severe competition SMEs would face in a global market would remain overwhelming. But this view of SMEs proved elusive insofar as the SME sector has been outperforming the larger firms by a wide margin since the turn of the century (Business World 2005).

Graafland et al. (2003) found that small firms rely relatively more than large firms on a dialogue strategy in which they try to learn from stakeholders which aspects of CSR are most important to realize.

The DTI (2002b) in cooperation with Business in the Community with the British Chamber of Commerce, Institute of Directors (IoD) and AccountAbility (The Institute of Social and Ethical Accountability) conducted an empirical research aiming to better understand the engagement of SMEs in responsible business practice in the UK. The findings highlighted several issues, it said that more attention needs to be directed to the
distinct challenges of engaging SMEs, since these are so different from those that face large corporations.

Reporting on a research done among SMEs in Italy, Molteni et.al. stated in 2004 that, two main types of SME seemed most likely to adopt CSR:
(a) Those whose ownership is oriented towards increasing margins of profitability;
(b) Those more involved with their economic and social context, that is, relations with different stakeholders (in particular, employees and local communities).

Typically, the second category of SMEs is more aware of SRBs (socially responsible behavior) and even without the CSR label, they act responsibly, especially in the areas of employees' satisfaction, financial support of the local community and attention to the environment.

Tencati et al. in 2004, said that in 2002, the Italian Government launched the CSR-SC project, and in this context the Ministry of Labour and Social Affairs (2003) suggested CSR-SC as a standard for SMEs, as an integrated framework for reporting on CSR. In particular, the goal of the project is to disseminate the culture of CSR and best practices among enterprises while developing commonly agreed upon guidelines and criteria for CSR self-assessment, measurement, reporting and assurance, all of which coalesce in the preparation of a Social Statement. Moreover, CSR-SC supports SMEs in developing CSR strategies to increase their competitiveness.
Perrini in 2006, listed out all the proactive measures taken by Italian Government. In 2005, the Italian government launched the I-CSR. The purpose of I-CSR, based in Milan, is to promote knowledge of CSR and develop research on social responsibility.

Established by the Finance Act of 2005, I-CSR will play a crucial role in the Italian and international debate on CSR by promoting innovative research activities to develop and spread the knowledge and culture of this field. This will facilitate the exchange of experts and expertise at the European level, and create common topics of research and help the countries of Europe to work together towards a common agenda and a common language. Through such experiences and projects, the Italian government should exemplify ways to reach out to the above-mentioned “sunken” CSR category of SMEs.

Spence and Rutherford, in 2003, said the CSR agenda is gaining momentum among large corporations and investors; there is a decisive call, particularly from governmental bodies, to further engage SMEs. As we have argued, more attention needs to be directed to the distinct challenges of engaging SMEs, since these are so different from those that face large corporations. Therefore, researchers focused on the latter cannot generalize their findings and suggestions to SMEs.

Antonio Vives in 2005 carried out research among 1200 SMEs in Latin America. The single most consistent reason given for engaging in CSR practices were ethics and religious values (40 to 50 percent of the firms for all three categories of responsibility mentioned this motivation). While the survey found that responsible practices are rather
common in SMEs, there is still a need to deepen the involvement of those already practicing CSR and promote it among those SMEs that are not yet participating in such efforts. SMEs, by their nature, particularly in terms of governance, ownership and goals, are a fertile ground for the development of responsible behavior.

The traditional tools and methods for involvement were developed mostly for larger firms in developed economies, for which the business case may be the most effective instrument. For smaller firms in developing countries, the promotion of responsible practices must be built on the ethical/religious motivation already existing to make the business case, wherever possible, which in turn will help to ensure sustainability of this behavior as firms evolve and face more competitive pressures.